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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

John A. Ricker
Executive Director
Universal Service Programs Support

December 3, 2001

DOCKET FILE COPY ORIGINAL

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: TRS Fund Administration
Financial Statements
CC Docket No. 90-571/

Dear Ms. Salas:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the eighth year of its operation (from July 1, 2000 through June 30, 2001), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter that is enclosed and remitting the duplicate to the bearer.

Very truly yours,



John A. Ricker

Enclosures

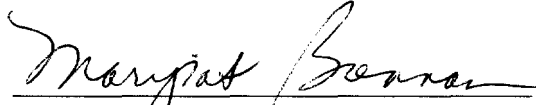
cc: D. Harmon
J. Lande
K. Moran
J. Rodriguez
K. Schroder
L. Selzer
S. Williams

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 3rd day of December, 2001, by mailing copies thereof by United States Mail, first class postage paid, by overnight express mail or by hand delivery, to the persons listed below.


Maripat Brennan

The following parties were served:

Magalie Roman Salas*
Office of the Secretary
445 Twelfth St., SW
Room TW-A325
Washington, DC 20554
(Original and three copies)

Katherine Schroder
Accounting Policy Division
Federal Communications Commission
445 Twelfth St., SW
Washington, DC 20554

Kenneth P. Moran
Accounting Safeguards Division
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C/O Federal Communications Commission
445 Twelfth St., SW, Room CY-B402
Washington, DC 20554

* Hand delivered



ANDERSEN

TELECOMMUNICATIONS RELAY SERVICES FUND

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2001 AND 2000
TOGETHER WITH AUDITORS' REPORT**

RECEIVED

DEC 03 2001

**Federal Election Commission
Office of Secretary**



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the
National Exchange Carrier Association, Inc.:

We have audited the accompanying balance sheets of the Telecommunications Relay Services Fund ("TRS Fund") administered by the National Exchange Carrier Association, Inc. ("NECA" or the "Company") as of June 30, 2001 and 2000, and the related statements of changes in fund balance and cash flows for the year ended June 30, 2001 and the eleven month period from August 1, 1999 through June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TRS Fund as of June 30, 2001 and 2000, and its changes in fund balance and cash flows for the year ended June 30, 2001 and the eleven month period from August 1, 1999 through June 30, 2000 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Roseland, New Jersey
October 5, 2001

TELECOMMUNICATIONS RELAY SERVICES FUND

BALANCE SHEETS

AS OF JUNE 30, 2001 AND 2000

(in thousands)

| | 2001 | 2000 |
|--|------------------|------------------|
| ASSETS: | | |
| Cash and cash equivalents (Note 2) | \$ 23,792 | \$ 12,675 |
| Receivable from contributors, net of allowance for doubtful accounts of \$353 and \$0 (Notes 1 and 2) | 298 | 408 |
| Interest receivable | 76 | 2 |
| Total assets | <u>\$ 24,166</u> | <u>\$ 13,085</u> |
| LIABILITIES AND FUND BALANCE: | | |
| Liabilities- | | |
| Payable to service providers (Note 1) | \$ 9,655 | \$ 7,645 |
| Payable to contributors | 53 | 91 |
| Accounts payable and accrued expenses | 58 | 27 |
| Total liabilities | <u>9,766</u> | <u>7,763</u> |
| Fund balance | 14,400 | 5,322 |
| Total liabilities and fund balance | <u>\$ 24,166</u> | <u>\$ 13,085</u> |

The accompanying notes to the financial statements are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND THE
ELEVEN MONTH PERIOD FROM AUGUST 1, 1999
THROUGH JUNE 30, 2000
(in thousands)

| | Year Ended June 30, 2001 | Eleven Month Period Ended June 30, 2000 |
|--|-----------------------------------|--|
| REVENUE AND OTHER ADDITIONS: | | |
| Contributions (Notes 1 and 2) | \$ 58,908 | \$ 23,860 |
| Interest income (Note 2) | 1,121 | 1,179 |
| Total revenue and other additions | <u>60,029</u> | <u>25,039</u> |
| EXPENDITURES AND OTHER DEDUCTIONS: | | |
| Amounts paid and due to service providers (Note 1) | 49,805 | 39,782 |
| Uncollectible contributions (Note 2) | 621 | 36 |
| Administrative costs (Note 3) | 525 | 319 |
| Total expenditures and other deductions | <u>50,951</u> | <u>40,137</u> |
| Net increase (decrease) in fund balance | <u>9,078</u> | <u>(15,098)</u> |
| FUND BALANCE, beginning of period | <u>5,322</u> | <u>20,420</u> |
| FUND BALANCE, end of period | <u>\$ 14,400</u> | <u>\$ 5,322</u> |

The accompanying notes to the financial statements are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001 AND THE ELEVEN MONTH
PERIOD FROM AUGUST 1, 1999 THROUGH JUNE 30, 2000
(in thousands)

| | Year Ended June 30, 2001 | Eleven Month Period Ended June 30, 2000 |
|--|-----------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from contributors | \$ 58,849 | \$ 25,991 |
| Cash paid to service providers and contributors | (48,285) | (39,087) |
| Cash paid for administrative costs | (494) | (325) |
| Interest received | 1,047 | 1,188 |
| Net cash provided by (used in) operating activities | 11,117 | (12,233) |
| CASH AND CASH EQUIVALENTS, beginning of period | 12,675 | 24,908 |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 23,792</u> | <u>\$ 12,675</u> |
| RECONCILIATION OF INCREASE (DECREASE) IN FUND BALANCE TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Changes in operating assets and liabilities - | | |
| Increase (decrease) in fund balance | \$ 9,078 | \$(15,098) |
| (Increase) decrease in receivable from contributors | (243) | 1,992 |
| Increase in allowance for doubtful accounts | 353 | - |
| (Increase) decrease in interest receivable | (74) | 9 |
| Increase in payable to service providers | 2,010 | 779 |
| (Decrease) increase in payable to contributors | (38) | 91 |
| Increase (decrease) in accounts payable and accrued expenses | 31 | (6) |
| Net cash provided by (used in) operating activities | <u>\$ 11,117</u> | <u>\$(12,233)</u> |

The accompanying notes to the financial statements are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001 AND 2000

(in thousands)

1. GENERAL

The Americans With Disabilities Act directed the Federal Communications Commission ("FCC") to establish regulations requiring nationwide telecommunications relay services ("TRS") by July 26, 1993. TRS facilities are equipped with specialized equipment and staffed by communications assistants who relay conversations for people with hearing and/or speech disabilities. On July 20, 1993, the FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the Telecommunications Relay Services Fund ("TRS Fund"). On June 30, 1995, the FCC reappointed NECA as the TRS Fund administrator for a 4-year term through July 1999 (Third Report and Order, CC Docket No. 90-571). On June 30, 1999 NECA was appointed to a third 4-year term through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999).

A fund year is the period during which the TRS Fund collects from contributors and reimburses providers. The TRS Fund bills all common carriers providing interstate services and makes distributions monthly to qualified service providers. The annual contribution factor is developed by NECA and approved by the FCC every June based upon estimates of the revenue requirements necessary to provide services in the upcoming July 1st through June 30th period. Accordingly, at a given point in time, amounts may be receivable from contributors or payable to service providers.

The annual contribution factor approved by the FCC was \$.00038 per each dollar of interstate revenue for the period from April 26, 1999 through March 26, 2000. It was increased to \$.00073 for the July 2000 through June 2001 period and will remain the same for the period July 2001 through June 2002. The annual factor is determined by NECA by taking into consideration the projected funding requirements of providing interstate TRS, Speech to Speech and Video Relay services, changes in the growth of interstate revenues throughout the industry, a variable safety margin percentage and the projected remaining fund balance at the end of each fiscal year. The safety margin percentage is used to protect the integrity of the fund against uncollectible accounts, and is calculated based on projected funding requirements. For the year ended June 30, 2001 and the eleven month period ended June 30, 2000, the safety margin used in the original annual contribution factor calculation was 10%. The fiscal 2001 safety margin was revised downward during the year to 7.15% of projected funding requirements.

Payments to service providers are based on interstate TRS conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on the estimated costs to provide interstate TRS service divided by the expected conversation minutes to be provided. From January 1, 1999 through June 30, 2000, the per minute rate was \$1.179 per minute. From July 1, 2000 through June 30, 2001, the rate was increased to \$1.282 per minute. This rate was amended and increased to \$1.328 effective January 1, 2001 through June 30, 2001. From July 1, 2001 through June 30, 2002, the rate has been decreased to \$1.309 per minute.

On July 14, 1999, the FCC issued an Order in CC Docket No. 98-171, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms. This Order has impacted the interstate TRS funding process in a number of ways including changing the contribution base to end user revenues, reducing the minimum contribution from \$100 to \$25, and changing the fund year from April – March to July – June. To coincide with the change of fund year, effective July 1, 2000, the TRS Fund changed its fiscal year end from July 31st to June 30th.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001 AND 2000

(in thousands)

On March 6, 2000, the FCC issued an Order in CC Docket No. 98-67. The Order was intended to improve the quality of the current relay service and provide new types of relay services including Video Relay Service and Interstate Speech to Speech minutes commencing in the fiscal year ended June 30, 2001. The reimbursement rates approved by the FCC for Interstate Speech to Speech and Video Relay Service for the fiscal year ended June 30, 2001 were \$4.623 and \$5.143 per minute, respectively. The Video Relay Service rate was amended and increased to \$5.539 per minute effective October 1, 2000. For the period July 1, 2001 through June 30, 2002, the Interstate Speech to Speech rate was decreased to \$2.620 per minute and the Video Relay Service rate was increased to \$7.449 per minute.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These statements have been prepared on the accrual basis of accounting for the periods presented.

The FCC rules permit carriers to file their monthly remittances disclosing their revenues on a cash basis. The financial statement caption of "receivable from contributors" on the balance sheets, as well as the "contributions" on the statements of changes in fund balance reflect the assessment based on revenues that are reported by the carriers on a cash basis.

Cash and Cash Equivalents

The TRS Fund considers all highly liquid securities, purchased with a maturity of three months or less, to be cash equivalents. Interest is credited to the TRS Fund when earned. The average annualized investment rate during the year ended June 30, 2001 was 5.86% and the average investment rate during the eleven month period ended June 30, 2000 was 5.75%.

Allowance for Doubtful Accounts

An allowance for doubtful accounts in the amount of \$352 was established for fiscal 2001 to provide for anticipated uncollectible amounts from certain carriers that are included in the receivable from contributors at June 30, 2001. Uncollectible contributions included in the statements of changes in fund balance consists of the establishment of the allowance for doubtful accounts and contributions written off of \$262 and \$36 for the year ended June 30, 2001 and the eleven month period ended June 30, 2000, respectively.

Amounts Billed to Contributors

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The Company has recorded these adjustments in current period billings rather than reflecting these adjustments in the period to which they pertain. Management does not believe that the impact of these adjustments is material to the financial statements presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(in thousands)

Reclassification

Certain reclassifications to the 2000 financial statements have been made to conform to the current year presentation.

3. ADMINISTRATIVE COSTS

Administrative costs (in thousands) consist of the following-

| | Year Ended June 30, 2001 | Eleven Month Period Ended June 30, 2000 |
|--------------------|-----------------------------------|--|
| Cost allocation | \$ 243 | \$ 190 |
| Consultants | 159 | 70 |
| Direct labor costs | 63 | 10 |
| Miscellaneous | 50 | 45 |
| Travel | 10 | 4 |
| | <u>\$ 525</u> | <u>\$ 319</u> |

NECA administrative costs charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including TRS Fund) is attached. NECA has independent public accountants review NECA's cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest attestation report issued was dated March 30, 2001 and covers the year ended December 31, 2000.

Costs for personnel assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities, and general overheads.

Beginning in January 1, 2000, NECA has acted as the Data Collection Agent ("DCA") for the TRS Fund and other FCC established programs. As the DCA, NECA collects revenue information from interstate telecommunications service providers on FCC Form 499-A and allocates the cost associated with the collection process to the various programs. During fiscal 2001, TRS was allocated 20% of the total DCA expenses through March 31, 2001 and 8% of the total from April 1, 2001 through June 30, 2001. In fiscal 2000, TRS was allocated 20% of total DCA expenses from January 1, 2000 through June 30, 2000. These expenses totaled \$100 and \$52 for the year ended June 30, 2001 and the eleven month period ended June 30, 2000, respectively, and are included in the consultants administrative expenses.

The consultants administrative expenses for fiscal 2001 include fees incurred associated with an external investigation of one TRS service provider.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(in thousands)

4. INCOME TAXES

These financial statements present the activities of the TRS Fund. The TRS Fund was established in accordance with the Americans with Disabilities Act directed by the FCC and therefore not subject to Federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

5. TRS FUND ADVISORY COUNCIL

An interstate TRS Fund Advisory Council (the "Council") was formed in accordance with FCC rules to advise NECA on interstate TRS cost recovery matters. The Council meets at least twice annually.

According to the Council Bylaws, the Council can be comprised of not fewer than 6 and not more than 13 members. The FCC has ordered that members represent the following groups: persons with hearing and/or speech disabilities, TRS users - voice and text telephones, interstate telecommunications service providers, state regulatory representatives, and TRS providers. As of October 5, 2001, the Council had 13 members.